

VZCZCXRO2344
RR RUEHDBU RUEHLN RUEHVK RUEHYG
DE RUEHTA #3028 2400514
ZNR UUUUU ZZH
R 280514Z AUG 06
FM AMEMBASSY ALMATY
TO RUEHC/SECSTATE WASHDC 6687
INFO RUEHAST/USOFFICE ASTANA
RUCNCIS/CIS COLLECTIVE

UNCLAS ALMATY 003028

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR SCA/CEN - MUDGE, DEHART

E.O. 12958: N/A

TAGS: [PGOV](#) [PHUM](#) [PREL](#) [KDEM](#) [KZ](#)

SUBJECT: KAZAKHSTAN: VICE MINISTER OF TRADE DISCUSSES
DIVERSIFICATION, REGIONAL TRADE POSSIBILITIES WITH DAS
FEIGENBAUM

¶1. (SBU) Summary: During an August 25 meeting in Astana with SCA Deputy Assistant Secretary Evan Feigenbaum, Vice Minister of Industry and Trade Askar Batalov described Kazakhstan's economic diversification strategy and highlighted the promise of, and obstacles to, greater regional trade. Of the seven economic "clusters" the GOK had chosen to spur economic diversification, Batalov elaborated on the oil services sector, acknowledging that the most serious obstacle was not international oil company cooperation, but rather raising the quality of Kazakhstani goods and services to meet international standards. Batalov, DAS Feigenbaum, and Ambassador Ordway also discussed the potential of the Kazakhstani textile sector, including the idea of establishing a center for intermediate textile production in southern Kazakhstan, processing regional cotton for export to Pakistan or China. End Summary.

Diversifying the Economy

¶2. (SBU) Batalov opened the meeting by describing GOK efforts to diversify Kazakhstan's economy by promoting exports in sectors other than oil. The GOK had begun the process in the mid-1990's, he explained, by extending a system of privileges to companies willing to invest in other sectors. More recently, the GOK had contracted a study which identified 42 sectors of the economy with competitive potential. Of those, seven "clusters" had been chosen as "pilot" sectors for a three-year development plan. Batalov described progress in the "oil services" sector, telling DAS Feigenbaum that the GOK goal was to raise Kazakhstani content in that sector from its current 5% to 50% within seven years. The Ministry was in the process of negotiating MOUs requiring companies to develop proposals to use more local content. "The major oil and mining companies are cooperating," the Minister said, leaving the challenging task of raising Kazakhstani production and services to meet international standards.

Potential in Regional Trade

¶3. (SBU) Asked by DAS Feigenbaum to reflect on the possibilities for increased regional trade, Batalov identified three major international markets for Kazakhstani trade: China, India, and Russia. The GOK had recently created the "Kazyna" Fund, he said, in part to help promote investment - both domestic and overseas - in sectors where delayed returns or high risk discouraged private capital. Among its many services, Batalov said, Kazyna provided export guarantee insurance, similar to

that offered by the American EXIM Bank. Batalov acknowledged that, despite these programs and the GOK's determination to increase non-oil exports, progress had been slow. Language and cultural differences, for example, posed barriers to trade in China, Pakistan, and Afghanistan, though Batalov cited the possibility of entering the latter market by partnering with Tajik intermediary companies.

Kazakhstan's Textile Industry: Competitive or Not?

14. (SBU) DAS Feigenbaum expressed puzzlement that Kazakhstan had chosen textiles as a key sector for export growth, in light of heavy Chinese competition. Batalov explained that the GOK had established a Free Trade Zone in Southern Kazakhstan, and hoped to attract Uzbek and Turkmen cotton for processing and export to Europe. DAS Feigenbaum suggested Pakistan, a major textile producer and exporter, was much closer than Europe. He asked whether Pakistan's industries might not represent a more logical export target. Ambassador Ordway voiced the possibility of exporting intermediate products - textile fibers - for further processing in China. Batalov expressed skepticism of the Pakistan market, citing "high risk of investment." Instead, he suggested that the GOK hoped to attract the major "name brand manufacturers" to locate clothing production centers in Kazakhstan itself.

ORDWAY